
MEMORANDUM

To: Woodway Council
From: Mike Quinn, Mayor
Subject: 2024 Preliminary Budget
Date: September 29, 2023
Cc: Eric Faison, Town Administrator
Heidi K. S. Napolitano, Clerk-Treasurer

Overview

At Monday's meeting, I will be presenting the 2024 preliminary budget. My proposed budget reflects our annual process of evaluating costs by line item, including adjusting projections based on recent & historical trends, regulatory & contractual obligations, revised priorities and expectations, and new one-time revenues and/or expenses. While this process sounds complex, the Town has few significant revenue sources, our police and fire contracts account for a substantial portion of our expenditures, and the Town is very leanly staffed. As a result, there generally are not substantial variations in our annual budget.

I am projecting an approximately \$82,000 reduction in our Operating Budget revenue compared to 2023, and a \$22,000 decrease in expenses. The reduction in revenue results primarily from the expiration of state assistance. There are a number of areas where expenses increase or decrease, largely offsetting each other. One item of note is a reduction in state audit expenses (the audit occurs every other year).

We project the Town's operating funds will drop below \$1 million sometime in 2027, and there will be a negative fund balance two years later, which is consistent with previous projections.

Items of Note

Operating Revenues:

Property taxes remain the primary revenue source for the Town. We are projecting an increase of 1% in 2024, consistent with State law. Our sales tax revenue has remained relatively steady despite continually high inflation and rising interest rates. We have invested a substantial amount of our unallocated funds, which has produced increased interest earnings.

Recent state legislation allows the Town, on a temporary basis through 2023, to spend real estate excise tax (REET) revenue on the operation of certain capital assets (e.g., street and park maintenance/operations). We will transfer approximately \$210k of REET to maintenance/operations in 2023 as planned and discussed during the 2022 budget preparation. No transfer is authorized for 2024 or future years.

Operating Expenses:

The Town's operating budget can be categorized in three areas: Mandatory, Essential and Discretionary expenses. The expenses in each of these categories remain largely consistent over the years, with most of the Town's operating expenses fall within what we would describe as mandatory (29%) or essential (63%) services.

Mandatory: By law, we are required to have a Mayor, a Council, a clerk, a treasurer, a building official, an attorney, and a police chief. We also are required to perform the functions of a building inspector, a planner, permit technician, and certain responsibilities generally performed by public works. There also are mandatory costs, such as State Auditor charges, County election charges, etc.

Essential: Traffic enforcement, police patrols, and even police response are not required by law. Nor are fire protection and emergency medical services. Paved roads, surprisingly, are not required. However, most residents would categorize each of these services as essential.

Discretionary: The Town's discretionary expenses are limited – accounting for a little less than 8% of our Operating Budget. And, while discretionary, expenses that would fall within this category include items that many would find important. A non-exhaustive list of these expenses would include parks, our Town Administrator, the Town Fair, and planning and legal expenses associated with Point Wells.

As noted above, I am projecting increased expenses largely due to inflationary increases in our employee compensation, public safety contracts, and insurance rates.

- We annually evaluate our employee wages relative to comparable positions in other cities. As a result of this analysis, I am estimating a 3.3% increase (\$30k) in our core employees' salary and benefit costs.
- We have received a state grant to continue work on updating the Town's Comprehensive Plan. I am estimating \$40k in reimbursable expenses associated with this project.
- Public Safety expenses are our largest expense – accounting for almost half of our operating expenses. Our fire contract increases by 3% annually. This will result in an additional \$18k expense for 2024. Our police contract increases by the greater of 3% or the average of the prior two year's CPI. We estimate a 7.8% increase for 2024, or \$17.7k.
- Municipal insurance rates have increased dramatically over the past year. A significant factor in this increase relates to property and liability insurance costs associated with the provision of police services. I have included a \$23.7k increase to account for this expense.

Capital Revenues and Expenses:

We are maintaining our REET revenue estimate at \$120k. As a reminder, these funds are never expended until after we receive them. The non-binding six-year transportation improvement plan anticipates \$75k in overlays in 2024.

Conclusion

Overall, our budget and financial forecast remains largely similar to prior years. The temporary change in state law and the grants that we received from the federal government have provided substantial support to the Town's operating budget – over \$1 million through 2023. However, these funds have merely masked an ongoing structural deficit.

In 2024, we expect annual operating fund deficits to return, due to expense growth rates that exceed revenue growth rates. As a result, we will need to develop a strategy to engage in a thoughtful discussion with our community on how to provide long-term stability to the funding of services that we all consider important.

Please review the budget package and consider additions that you understand to be a community priority, and we will discuss as a group. Additional staff research time may be needed. I look forward to productive discussions during this budget cycle!